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OP-ED COLUMNIST

## The British Evasion

By [PAUL KRUGMAN](#)

**W**e must end Social Security as we know it, the Bush administration says, to meet the fiscal burden of paying benefits to the baby boomers. But the most likely privatization scheme would actually increase the budget deficit until 2050. By then the youngest surviving baby boomer will be 86 years old.

Even then, would we have a sustainable retirement system? Not bloody likely.

Pardon my Britishism, but Britain's 20-year experience with privatization is a cautionary tale Americans should know about.

The U.S. news media have provided readers and viewers with little information about how privatization has worked in other countries. Now my colleagues have even fewer excuses: there's [an illuminating article on the British experience in The American Prospect](#), [www.prospect.org](http://www.prospect.org), by Norma Cohen, a senior corporate reporter at The Financial Times who covers pension issues.

Her verdict is summed up in her title: "A Bloody Mess." Strong words, but her conclusions match those expressed more discreetly in a recent report by Britain's Pensions Commission, which warns that at least 75 percent of those with private investment accounts will not have enough savings to provide "adequate pensions."

The details of British privatization differ from the likely Bush administration plan because the starting point was different. But there are basic similarities. Guaranteed benefits were cut; workers were expected to make up for these benefit cuts by earning high returns on their private accounts.

The selling of privatization also bore a striking resemblance to President Bush's crisis-mongering. Britain had a retirement system that was working quite well, but conservative politicians issued grim warnings about the distant future, insisting that privatization was the only answer.

The main difference from the current U.S. situation was that Britain was better prepared for the transition. Britain's system was backed by extensive assets, so the government didn't have to engage in a four-decade borrowing spree to finance the creation of private accounts. And the Thatcher government hadn't already driven the budget deep into deficit before privatization even began.

Even so, it all went wrong. "Britain's experiment with substituting private savings accounts for a portion of state benefits has been a failure," Ms. Cohen writes. "A shorthand explanation for what has gone wrong is that the costs and risks of running private investment accounts outweigh the value of the returns they are likely to earn."

Many Britons were sold badly designed retirement plans on false pretenses. Companies guilty of "mis-selling" were eventually forced to pay about \$20 billion in compensation. Fraud aside, the fees paid to financial managers have been a major problem: "Reductions in yield resulting from providers' charges," the Pensions Commission says, "can absorb 20-30 percent of an individual's pension savings."

American privatizers extol the virtues of personal choice, and often accuse skeptics of being elitists who believe that the government makes better choices than individuals. Yet when one brings up Britain's experience, their story suddenly changes: they promise to hold costs down by tightly restricting the investments individuals can make, and by carefully regulating the money managers. So much for trusting the people.

Never mind; their promises aren't credible. Even if the initial legislation tightly regulated investments by private accounts, it would immediately be followed by intense lobbying to loosen the rules. This lobbying would come both from the usual ideologues and from financial companies eager for fees. In fact, the lobbying has already started: the financial services industry has contributed lavishly to next week's inaugural celebrations.

Meanwhile, there is a growing consensus in Britain that privatization must be partly reversed. The Confederation of British Industry - the equivalent of the U.S. Chamber of Commerce - has called for an increase in guaranteed benefits to retirees, even if taxes have to be raised to pay for that increase. And the chief executive of Britain's National Association of Pension Funds speaks with admiration about a foreign system that "delivers efficiencies of scale that most companies would die for."

The foreign country that, in the view of well-informed Britons, does it right is the United States. The system that delivers efficiencies to die for is Social Security.